The Leader, like other weekly county newspapers throughout America, continues to thrive because of its emphasis on local news and local people. Kathleen's weekly column, ''You Might Doubt It!,'' is a popular feature with subscribers and reflects the author's wit and personality.

Kathleen's contributions to Rains County extend over her lifetime and beyond her leadership at the newspaper. Born in Emory and educated in the public schools there, Kathleen was chairperson for the Red Cross in the 1930's. During World War II, she was Emory's chairperson for the war bond drive. She is a charter member of the Fidelis Sunday School Class of Emory Baptist Church and is the church's longest member, having joined in 1919. She is a charter member of the Point Ladies Civic Club, Emory's Women's Service Club and the Rains Garden Club. She was president of the Texas Women's Press District 12 in the 1960s.

Kathleen was married to Bo Gunter, who died in 1956, and then was married to George Becknell in 1960, who died in 1980. When Kathleen became editor of the Leader, George began street sales of the newspaper in surrounding towns, resulting in over 1,000 papers now being sold on the streets of Point, East Tawakoni, Emory, Lone Oak and Alba.

Mr. Speaker, people like Kathleen Becknell represent the heart and soul of small-town America. She has devoted a lifetime to her town and county. Born and raised there, she chose to reside there all her life, and her loyalty and devotion to the people of Rains County are evidenced each week in the pages of The Rains County Leader.

As we adjourn today, Mr. Speaker, let us pay tribute to Kathleen Hill Becknell of Emory, TX, for a job well done and a life well lived. May she enjoy many more years as a community leader, newspaper editor, and legendary citizen of Rains County.

CONSUMER AUTO-TAX RELIEF ACT OF 1995

HON. SHERROD BROWN

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Thursday, June 29, 1995

Mr. BROWN of Ohio. Mr. Speaker, I rise today to introduce legislation that will offer support to one of America's most important industries. As American car-makers face unfair competition abroad, the Consumer Auto-tax Relief Act of 1995, will give a valuable shot in the arm to the domestic auto market.

Yesterday, in a dangerous game of brinkmanship, the administration and Japanese negotiators only narrowly averted an all out trade war. While I applaud the administration for taking a tough trade position with the Japanese and appreciate the promise of more accessible Japanese markets, this strategy only addresses part of the problem I want to solve. The C.A.R. Act of 1995 carefully crafts language that benefits an entire spectrum of interests. The C.A.R. Act offers us tax relief for middle-class families, support for our domestic auto industry, and a chance for a cleaner environment. By supporting this bill, we can stand up for American consumers, American business, and American workers.

The C.A.R. Act is simple. It restores the deductibility of interest on loans for any car under $35,000 with at least 60 percent domestic content, according to the standards established in the American Automobile Labeling Act of 1993.

Besides the obvious benefit to American car manufacturers, the C.A.R. Act benefits taxpayers by offering much needed tax relief. This Congress we have heard a lot about the benefits of tax relief, but rarely have we offered measures that benefit both business and middle-class interests. The C.A.R. Act offers us a chance to offer real relief, to real people and help the business community in a truly positive way.

In 1994, the average interest payments on a new car amounted to $1,574 annually. Restoring the deductibility of these payments would make automobiles more affordable to people who depend on automobiles for transportation. Americans have a unique driving culture in that we use our cars for everything from going to work to going on vacation. Parents take their children to after school activities, students drive to school, families take road trips and employees get to work—all in their cars. The fact is, most families need a car to do even routine chores like shopping for groceries. By offering this deduction, the C.A.R. Act makes this necessary mode of transportation more accessible to everyone. This is truly a progressive tax break.

In addition to making American cars more accessible to everyone, the C.A.R. Act gets older cars off our roads and gives us cleaner air. As consumers take advantage of the benefits of the C.A.R. Act, older cars will be replaced with newer, cleaner burning, and more fuel efficient models that will go a long way in preserving the quality of our air. Again, the C.A.R. Act is a common sense move, not only for American jobs, industry and taxpayers, but also for our environment.

The C.A.R. Act does still more. By defining an American car by content level, the C.A.R. Act also encourages foreign owned manufacturers to purchase American made parts. Currently, most foreign cars built in the United States and Canada have approximately a 48-percent American content. In response to this initiative, foreign companies that build in the United States and Canada may choose to purchase more American made parts to allow their cars to qualify for the deduction. This represents just another benefit to America's auto industry.

The U.S. Trade Representative tells us that fully one-third of all autos sold in the U.S. domestic market are foreign. Until we see corrective action to improve our trade imbalance with Japan, we must support the C.A.R. Act and other measures like it to show American auto industry workers, manufacturers, and consumers that we appreciate their efforts and care about the work they do. In my hometown of Lorain, OH, 3,800 people at the Lorain Ford auto plant(s) depend on me to do everything I can to protect American jobs, markets, and industry. The C.A.R. Act gives us all the chance to do just that.

Finally, I would like to acknowledge Ford, Chrysler, General Motors and the American Automobile Manufacturers Association for responding to my calls for assistance with creating an incentive not only to buy American cars, but also to support middle-class families. Their assistance was invaluable, and I appreciate their input. They understand, as I do, that the C.A.R. Act represents an opportunity for American industry, American workers and middle-class taxpayers. It means more jobs, greater production and a boost to our economy.

The auto industry is the cornerstone of the American industrial base, and it deserves our support. In 1994 alone, America's car companies contributed almost 11 percent to the growth in the U.S. gross domestic product and directly employed 2.3 million workers. Encourage consumers to buy American cars and show your support for our domestic industry by co-sponsoring C.A.R. Act of 1995. Give American consumers a break and show the world we mean business.

Thank you.

SECURITIZATION ENHANCEMENT ACT OF 1995

HON. E. CLAY SHAW, JR.

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Thursday, June 29, 1995

Mr. SHAW. Mr. Speaker, today I, along with Congressman RANGEL, am introducing the Securitization Enhancement Act of 1995. We are privileged to be joined by Representatives ZIMMER, MCDERMOTT, PAYNE, KENNELLY, CARDIN, ENGLISH, SAM JOHNSON, HANCOCK, CHRISTENSEN, NEAL, CRANE, THOMAS, COLLINS, KLECZKA, DUNN, HOUGHTON, MATSUI, NANCY JOHNSON, HERGER, NUSSLE and PORTMAN in introducing this important legislation that will assist small business in gaining access to capital and promote safety and soundness in the Nation's banking system. It will do so by simplifying the tax rules governing the securitization of asset-backed securities in a user-friendly fashion.

We also have an additional piece of good news. Whenever the Congress considers tax legislation, one of the first questions asked is how much will this cost. Fortunately, this legislation is revenue neutral and will not add to our budget deficit. Indeed, the bill actually raises $87 million over 5 years, $92 million over ten, without raising any taxes.

This bill builds upon the success of legislation enacted by Congress in 1986—the Real Estate Mortgage Investment Conduit [REMIC] provisions of the Tax Reform Act of 1986—which specified the tax rules for securitizing home mortgages.

The legislation creates a new tax vehicle similar to a REMIC known as a Financial Securitization Investment Trust [FASIT]. Unlike REMIC, which applies only to home mortgages, FASIT is available to all forms of debt, including small business, consumer, student and auto loans, among others. Our experience with REMIC suggests that facilitating securitization for such loans will greatly expand credit availability.

The Benefits of Securitization.—Securitization is the process whereby banks and other lenders package relatively illiquid loans and turn them into highly liquid marketable securities that relay for their creditworthiness solely on the underlying loans or on other guarantees provided by the private sector. Assistant Secretary of the Treasury Richard Carnell has described the securitization process as follows:

By ''securitization,'' I mean the process of transforming financial assets, such as loans, into securities that in turn convert into cash over time. One converts loans into securities by assembling a pool of loans and selling them to a special-purpose entity, often a trust. That entity then issues securities representing a debt or equity interest in the loan pool. The cash flow generated by the loans finances payments on the securities. (Statement of the Honorable Richard S. Carnell, Assistant Secretary for Financial Institutions, United States Department of the Treasury, on the Administration's Views on the Loan Securitization Provisions of the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994, Subcommittee of Telecommunications and Finance, Committee on Energy and Commerce, United States House of Representatives, June 14, 1994 at 1.)

The advantages of securitization are several:

First, because securitization increases the amount of information investors have about the risks involved in holding a pool of loans, investors become more comfortable with those risks and more willing to invest in the pool.

Second, securitization makes it possible to segment the different categories or types of economic risk associated with a pool of loans. As a result, it is often possible to make a better match between various risks and the investors that are most knowledgeable about undertaking those risks.

Third, by converting a pool of loans into a marketable security—even if that security is retained by the original lender—the loans become more liquid and therefore more valuable. Liquidity also makes for safer and sounder financial markets.

Fourth, by increasing information, risk segmentation, and liquidity, securitization makes it easier for lenders and investors to achieve appropriate diversification of their portfolios. Diversification can also help prevent a localized economic problem—such as a sudden change in the price of energy, real estate, or other commodities crucial to a local economy—from dragging down all of an area's local financial institutions and potentially causing serious regional or national financial problems.

Avoiding Future Credit Crunches.—We all remember the credit crunch of the late eighties and early nineties that so hurt small businesses throughout the country. While this problem has receded somewhat, it remains a serious one. However, while small business was finding credit hard to come by, home buyers experienced unprecedented credit availability during this same period. For example, in 1986 the total size of the home mortgage market was approximately $2.5 trillion, with about $500 billion in home mortgages being securitized or sold in the secondary market. Six years later, in 1992, the size of the home mortgage market had grown to $4 trillion, over half of which was securitized. Virtually 100 percent of all fixed rate home mortgages are now sold in the secondary market.

Since 1986, the total supply of home mortgage money has been steadily increasing, even though the portion supplied without reliance on securitization has been declining both as a percentage, and, most recently, as an absolute amount. Clearly, without securitization we would not have had the large increase in credit availability in the home mortgage market that occurred since 1986.

REMIC may well be the most successful and perhaps the least known success emanating from the Tax Reform Act of 1986. Simply put, REMIC prevented the credit crunch from infecting the home mortgage market, to the everlasting benefit of millions of homeowners throughout the country.

FASITs and Small Business.—FASITs can do for other forms of debt, particularly small business loans, what REMIC accomplished for home mortgages. Securitization of other forms of non-mortgage debt is virtually in its infancy. In 1992 only about $120 billion in non-mortgage debt was securitized. Most of the debt involved revolving credit and auto loans. We know from experience with REMIC that there is almost a one-to-one ratio for increased securitization and increased credit availability.

There is every reason to believe that the economic and business benefits of securitization will be seized upon by lenders and borrowers alike in these other areas. As the administration has pointed out, "[s]ecuritization benefits borrowers by making credit cheaper and more readily available. . . . Securitization could help make small businesses less susceptible to problems in the banking system insofar as it gives those businesses access to national and international credit markets, through banks or other financial institutions." (Carnell statement, supra at 2–3.)

Last year Congress enacted the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994. That legislation made a number of changes in the securities laws intended to facilitate securitization of small business loans. When that legislation was introduced a provision was included authorizing Treasury to issue regulations regarding the tax rules for such securitizations. This provision was dropped, but the need for clear tax rules to guide small business and other nonmortgage securitizations remains.

FASIT completes the unfinished business of the Community Development Bank Act. As the Administration noted in its 1994 testimony:

We believe that securitization has the potential to increase lending to small businesses. Offering loan originators the opportunity to sell pools of small business loans to investors should help free up resources that can be used to make more such loans. By making small business loans more liquid, securitization should make them more attractive to originate and to hold. Securitization should also bring new sources of funds to small- and medium-sized business lending by enabling investors who do not lend directly to small businesses—such as pension funds, insurance companies, trust departments, and other institutional investors—to invest in small business loans made by other financial institutions, including banks that are effective originators of such loans but that may not want to hold all loans originated on their balance sheets. (Carnell statement, supra at 6–7.)

The administration further stated that:

[S]ecuritization should reduce the cost of borrowing for small businesses. Small business borrowers pay higher interest rates for credit in part because their loans are illiquid. If an active secondary market for small business loans existed, interest rates in that marked would influence rates in the loan origination market. If rates and yields were high in the securitized loan market, banks and other loan originators would be eager to have more loans to sell. They would signal this interest to borrowers by slightly lowering their interest rates to them, inviting borrowers to seek more credit or permitting previously marginal borrowers to afford credit. (Carnell statement, supra at 7.)

FASIT's and Safety and Soundness Concerns.—Although facilitating asset securitizations will, as the SEC noted, help small business gain access to needed capital, this legislation will also be of direct benefit to the taxpayer. We need only look back to the recent thrift crisis to see the tremendous costs to the taxpayer that can come about as a result of Federal deposit insurance.

Had REMIC or FASIT been in place in the late seventies, it is unlikely that the taxpayer would ever have had to bail out thrift depositors. In the last seventies, thrifts found themselves holding low interest rate mortgages at a time when their cost of funds was skyrocketing. To counteract these financial pressures, thrifts sought additional powers to engage in potentially more profitable, but also more risky activities. When these efforts proved to be unsuccessful, many thrifts failed, and the taxpayer had to finance a bailout costing billions.

Simply put, if banks can sell off their loans to the secondary market, the risk that the loans may possibly default is assumed by the capital markets rather than the taxpayer through the deposit insurance system. Had thrifts been able to sell off their low interest rate mortgages in the seventies, the mismatch between their earnings and cost of funds would have been avoided, and the taxpayer spared much later expense. FASIT, by facilitating securitization of non-mortgage debt, will allow for a much safer and sounder banking industry, and, at the same time, reduce the potential exposure now borne by the taxpayer in the event that such loans go bad.

The Tax Treatment of Asset Securitization.—In many ways the FASIT legislation is the tax code counterpart to the SEC's actions to promote asset securitization. Like the SEC's actions, FASIT would eliminate much of the disparity in tax treatment between certain selected classes or types of assets, which are currently allowed to obtain direct access to the capital markets through statutorily sanctioned vehicles, and other types or classes of assets which do not yet enjoy that treatment under the tax law. FASIT accomplishes this through a generic rule, like the SEC's approach, which allows all types of loans to be securitized as long as appropriate structural limitations and safeguards are in place.

By moving to a generic approach, FASIT represents a first step towards rationalizing the various pass-through vehicles that now exist in the Internal Revenue Code, including REMICs, REITs, RICs, and the like. Once the market becomes familiar with FASIT, it may well be possible, eventually, to do all forms of securitizations under the FASIT umbrella. However, given the already large markets that exist in these other areas such as REMIC, we believe it would be far preferable and much less disruptive to move gradually rather than precipitously to a one size fits all model.

Current Law Tax Treatment of Asset Securitization.—To understand exactly what FASIT does, and why it is beneficial, it is necessary to understand a little about the way asset securitizations are structured under current tax law.

Securitization of loans depends on the ability to pass through to investors all or a significant portion of the interest income that is earned on a pool of loans without the imposition of an intervening corporate tax. As a tax matter, this is essentially what occurs when a bank makes loans with funds that it has obtained from deposits or other borrowings. Corporate taxes are paid by the bank only on the portion of the interest income received that is not paid out as interest to its depositors or other creditors.

Traditional securitizations typically involve the use of a special purpose financing vehicle as the holder of the loans, and issue debt securities instead of raising funds from bank deposits, but the tax principle is the same. That is, assuming that the financing vehicle is a corporation, corporate taxes are paid only on the portion of the interest income received that is not paid out to the holders of debt instruments issued by the entity. As a result, the key tax issue is determining how best to structure the transaction so that the securities qualify as debt, rather than as an ownership interest in the special purpose entity.

With REMICs, or similar entities structured under the tax law as fixed investment trusts of partnerships, the task of securitizing loans becomes much easier because 100 percent of the income paid out to investors is passed through without the imposition of an intervening corporate tax. This complete pass-through treatment is available regardless of whether the securities are classified as debt or as equity. Thus, the problem of determining how best to structure a security so that it satisfies the business objectives of the parties and still qualifies as debt for tax purposes is eliminated.

FASITs and Asset Securitization.—Like the REMIC provisions before it, the FASIT legislation will help make loan securitization easier by creating a new pass-through structure specifically designed for loan securitization. Unlike REMICs, FASITs will be available for all types of loans or other instruments treated as debt for Federal income tax purposes.

Although the FASIT itself will not be subject to any tax, its net income will be included in the United States income tax return of its owner or owners, and thus will, in virtually all cases, be subject to corporate income tax. The only exception is a provision intended to facilitate small business loan securitizations, which allows businesses operated as partnerships or S corporations to retain ownership of FASITs used to securitize loans to their customers, such as trade receivables.

Loans will be transferred or sold to the FASIT so that it can issue securities backed by loans it has acquired. As with REMICs, FASITs will be permitted to issue securities that qualify as debt of the FASIT for Federal income tax purposes even though they are issued in non-debt form for State law purposes. This latter point reflects the fact that the assets of the FASIT are the sole source of payments on the securities, and that any risk of loss on the assets that is borne by the owners of the FASIT has been limited to a reasonably estimable amount. At the same time, treating such certificates as debt of the FASIT for tax purposes means that the portion of FASIT income passed through to the holders of the certificates is not included in the FASIT income that is passed through to the corporate owners of the FASIT.

The FASIT legislation makes the rules for qualifying securities as debt, based upon their economic substance, clearer and more straightforward. In so ding, FASIT makes the tax rules governing the most advanced type of securitization structures more accessible to a wider variety of issuers and their tax counsel, thus creating a more liquid and more efficient marketplace.

In addition to making the applicable legal rules and standards more accessible, FASIT will also ease some of the common law rules that are generally perceived as governing these types of transactions.

Under current case law, securities purporting to qualify as debt for tax purposes generally must have a high investment grade rating of ''A'' or better. Under the FASIT legislation, debt securities can be issued as long as they do not have a yield that is more than 5 percentage points higher than the yield on Treasury obligations with a comparable maturity, which will permit more subordinated debt securities to be issued. Even debt securities at the top end of that yield limitation are still fundamentally debtlike, as the 5 percentage point standard is borrowed from current tax law rules governing when certain high yield discount bonds will be subject to special rules deferring accrued interest deductions. (See, section 163(e)(5), Internal Revenue Code of 1986.) These rules effectively assume that obligations yielding 5 points more than Treasury bonds could and do qualify as debt. Thus, FASIT legislation will not be authorizing the issuance of debt securities that are fundamentally different from debt securities that are currently outstanding in the markets.

The yield limitation, which limits how much income can be passed through to the holders of FASIT debt instruments, is important because all remaining income—the income associated with the true equity like risk of investing in a pool of loans—will be taxable to the U.S. banks or other U.S. corporations that retain or acquire the ownership interests of the FASIT.

Securitization has been driven by economic, not tax considerations. Consequently, we have exercised great care to ensure that this legislation contains no loopholes or gimmicks. Strong antiabuse provisions are also included to prevent any gamesmanship.

Not only is this legislation devoid of any loopholes, it actually raises $92 million over 10 years. When a loan or an asset is transferred by the bank to the FASIT, there is an immediate recognition of gain. For example, assume that a loan will generate $10 of income each year over a 10-year period. When the loan is transferred to the FASIT, the present value of the entire $100 of income generated by the loan is recognized. In effect, this phenomenon is identical to an acceleration of estimated taxes, and the result is that the revenues lost by relieving the burden of the corporate level tax on the entity level is more than offset.

Mr. Speaker, this FASIT legislation promises to be a great benefit to the Nation's small businesses, which often have difficulty gaining access to needed capital. We have seen the tremendous success of REMIC in developing a secondary market for home mortgages. If FASIT is even half as successful as REMIC, we will have enacted the most important legislation in history for small business.

In addition to helping small business and others gain access to capital, this legislation protects the taxpayer from being forced to finance possible future bailouts for the banking industry. This legislation will promote safety and soundness of the banking system and spread the risks of loans throughout the capital markets rather than allowing them to be concentrated in one area, with the Federal Government the ultimate guarantor.

This legislation also simplifies the tax rules governing securitization of asset-backed securities and creates a single vehicle available for all forms of non-mortgage debt and, eventually, FASITs may even supplant REMICs as the vehicle of choice for all securitizations.

Finally, unlike many worthy tax measures which seem beyond our grasp because of budgetary constraints, this legislation actually raises money without raising taxes.

I am proud to have introduced this fine piece of legislation, and I urge my colleagues to join with me to see that FASIT is enacted in 1995.

GEN. COLIN POWELL—REMARKS ON THE U.S.-FLAG MERCHANT MARINE

HON. GERALD B.H. SOLOMON

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Friday, June 30, 1995

Mr. SOLOMON. Mr. Speaker, a strong Merchant Marine Fleet is vital to our national defense and economy. Without a strong fleet, the United States would become dependent on foreign ships, thus endangering its ability to respond to crisis situations overseas.

On June 15, 1992, Gen. Colin Powell, Chairman of the Joint Chiefs of Staff, delivered the commencement address to the U.S. Merchant Marine Academy. In his remarks, General Powell talked about the strategic importance of the U.S.-flag merchant marine and American merchant mariners. His statements clearly rebut the comments made in the Wall Street Journal and by other critics demeaning both the role played by the merchant marine during the Persian Gulf war and the need to maintain a strong maritime industry to meet future national defense needs. General Powell said the following:

Since I became Chairman of the Joint Chiefs of Staff, I have come to appreciate first hand why our merchant marine has long been called the nation's fourth arm of defense.

The American seafarer provides an essential service to the well-being of the nation, as was demonstrated so clearly during Operations Desert Shield and Desert Storm. Merchant Marines . . . worked side-by-side with soldiers, sailors, airmen, Marines and Coast Guardsmen to get the job done that needed to be done. . .

Fifty years ago today, U.S. merchant vessels operated by your forbears were battling the frigid seas of the North Atlantic to provide the lifeline to our allies in Europe. The sacrifice of those mariners was essential to keeping us in the war until we could go on the offensive. . . In World War II, enemy attacks sank more than 700 U.S. flag vessels and claimed the lives of more than 6,000 civilian seafarers. . .

For too many years, the pivotal contribution of the merchant marine to our victory in World War II has been overlooked. But now the situation has begun to be rectified. America is eternally grateful to all those who served in our merchant marine over the years for their efforts, their commitment and their sacrifice in defense of our beloved America. They are second to none. . .

Sealift was the workhorse of our deployment and sustainment operations. Ninety-Five percent of all equipment and supplies